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January 6, 1968

Consultations with the Congress
on Conte-Long and Symington Amendments

Suggested Talking Points

A. Introduction

1. We wish to discuss a matter of considerable urgency--the implementation of the Conte-Long and Symington Amendments to the FAA and IDB Act and the policy issues confronting us as a result of these new provisions.

2. The Amendments reflect an understandable concern of the Congress over the trend of arms spending by LDCs--and over the effect of this trend on the prospects for peace, development and representative popular government in the developing world.

3. The objective of the Executive Branch in this matter is the same as that of the Congress. In years past we have made considerable efforts to dissuade friendly countries from unnecessary military spending--particularly those receiving our aid.

4. []

"We recognize that the Congress, in passing these Amendments, has given the Executive Branch a new mandate to look for new initiatives and to make even greater use of United States leverage and influence in pressing for restraint in military spending by LDCs.

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5. We would like to discuss today several issues pertaining to these Amendments:

- a. Our general approach;
- b. The steps we have already taken and plan to take to implement them;
- c. Some of the problems and policy dilemmas that we foresee in respect to particular country situations;
- d. Some of the general guidelines and work rules under which we plan to keep aid recipient countries under continuing review.

B. Some General Considerations

1. We plan to undertake a serious effort to implement the Amendments. The broad policy objective, as we see it, is to work towards increased awareness and consciousness of this problem internationally (both among DCs and LDCs) and to help create a climate which would strengthen the position of the advocates of restraint in LDC governments.

2. We would, however, be misleading the Congress if we would promise dramatic results quickly. We have only limited influence with foreign governments in an area which is at the heart of national sovereignty. Furthermore, many governments have only limited room of maneuver on matters of defense policy because of public concern over national security and the political standing and influence of the military leaders. If we press too hard, we will lose our ability to influence the policies of these governments.

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3. Application of these provisions, therefore, will encounter many difficulties. We would like to stay in close touch with interested members of the Congress. We consider this only the first of a series of discussions.

C. Principles of Implementation

Our implementation of these Amendments will be based on four principles:

1. We will do our best to prevent the emergence of problem cases. We will convey our concern over military spending plans of LDCs well in advance of the time when the Amendments require us to invoke penalties.

2. We will make LDC governments keenly aware of these Amendments, our determination to implement them, and the concern of the United States Congress and public over the trend of arms spending in the developing world. In this manner, we hope that the statute will serve to deter and discourage excessive or unnecessary military spending.

3. While Congress was clear on the penalties to be applied, we assume that punishment was not the primary purpose. Therefore our first effort will be to obtain changes in resource allocation or modification of unwise equipment purchases.

4. We will formally and publicly invoke the penalty provisions only after we have exhausted all possible avenues to obtain assurances of a remedy. There are, of course, many ways in which we can begin to exercise pressure well before the formal invocation of the penalties required by the statute--such as slowing down or delaying our further aid commitments.

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D. Steps Taken or in Prospect

1. We have already reviewed several problem cases at a high level within the Administration and others will follow. Certain actions--described below--have been taken. The process includes:

a. Determination by the AID Administrator as part of the review and approval process for economic assistance programs, whether the Conte-Long or Symington Amendments are applicable.

b. A similar determination by the Deputy Under Secretary for Political Affairs on the applicability of the Conte-Long Amendment to military assistance and sales programs.

c. Cases where one of the Amendments are applicable will be further reviewed by the Under Secretary, using the IRG/SIG mechanism for inter-agency review and consultation.

2. We have formed two inter-agency committees to advise the AID Administrator, the Deputy Under Secretary for Political Affairs, and the Under Secretary on possible problem cases. These committees will keep defense expenditures and procurement policies of aid recipients under continuing review, assess country situations and prepare eligible for United States assistance or cash sales programs under the Amendments.

3. United States economic assistance will be committed only if we feel reasonably assured--or have formal assurances, where appropriate--that the country concerned will not make expenditures or purchase commitments in violation of the Amendments during the current fiscal year.

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4. We have instructed diplomatic missions around the world to review with host governments the concern of the United States Congress and public about arms spending by LDCs, to review the new provisions, and to request data concerning their host government's defense budgets and procurement plans. These data will be cross-checked against information from intelligence sources to avoid full dependence upon data officially furnished by LDC governments.

5. We will also continue the various measures through which we have tried to discourage excessive defense spending by LDCs in the past. For example, control over United States equipment and United States components in third country equipment, our role in influencing budgetary policies of countries dependent upon United States economic and military aid, consultations with friendly governments relying on United States military assistance and/or bilateral security arrangements, encouragement to regional economic and security arrangements between neighboring countries--all these have in the past and will continue to be used by us to promote our objective.

6. We are also planning steps to work for greater international concern as to this issue in appropriate multilateral bodies or institutions (e.g. IBRD, DAC ad hoc multilateral groups, etc.).

E. Problems in Latin America: Pressures for Modernization

1. General Comments: In Latin America most of our problems will arise under the Conte-Long rather than the Symington Amendments (but note Peru). Defense spending is, as a rule, fairly modest in relative and absolute terms--as it should be. Furthermore, we have been fairly successful over the years in slowing down the introduction of more advanced weapons systems. For example, Latin America today is the only continent without Mach 1 fighter aircraft.

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This period of highly effective restraint is gradually coming to an end as aircraft and other weapons systems wear out and obsolescence increases. Latin American military leaders and governments do not see that they should replace obsolescent aircraft with other aircraft of 1950 vintage.

This does not mean, however, that we are about to see an arms race in Latin America for the most advanced weapons system now in use in the developing world. If we pursue our policy of restraint with skill and tact, there is still an excellent chance that Latin American inventories and defense budgets will remain very reasonable compared to most other developing regions of the world.

How quickly various countries in Latin America will move towards acquisition of more advanced weapons will vary from country to country, and--to some extent--our influence and diplomatic skill.

2. The Problem of Peru: We have been concerned both over the trend of military spending and the procurement of particular weapons. For this reason, we have withheld a \$40 million balance of payments loan; asked informally for deferral of an IDB Board decision on several loans to Peru; and plan to send a high level emissary to Lima to discuss Peru's military spending plans and arrive at appropriate allowances.

The facts are:

Conte-Long: Peru has purchased (on credit) a squadron of French Mirages at a reported cost of \$26 million. These purchases were made before the enactment of the Amendments but as a matter of policy we nevertheless decided to withhold the balance of payments loan.

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Symington: Peru's defense expenditures in relation to total government spending had been on a declining trend between 1960 and 1966. But from 1966 to 1967 defense spending rose from 16 to 19 percent of total government expenditures. Although development expenditures held their own, the fact is that this increase coincided with a deteriorating balance of payments, a devaluation and a rising budget deficit. Accordingly, we felt there was a reasonable question about the applicability of the Symington Amendment.

The case of Peru presents us with a serious dilemma.

-- President Belaunde does not have the political strength simply to ignore the demands of the military. The Peruvian Congress, particularly the opposition, has voted overwhelmingly for the authorizing legislation enabling the military to buy new equipment. The opposition, which is strongly nationalist uses this issue to increase its political acceptability to the military in hope of eventually succeeding Belaunde to the Presidency.

-- Even assuming that we can persuade Belaunde to adopt a fairly hard line towards the military, we should recognize that such a posture entails considerable risks. The Peruvian military as recently as December seriously considered a military coup. The poor state of Peru's economy was the principal deterrent. But a refusal of Belaunde to sanction the re-equipment program could shift the balance within the military elite.

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-- Our posture on this issue will be viewed sympathetically neither in Peru nor in other Latin American countries. Rather, it will be considered another instance of inappropriate United States interference in Latin America's domestic affairs.

For all these reasons, our emissary will have to proceed with extreme care. He will have to press Belaunde to resist the demands of the military for equipment--but will also have to be aware of Belaunde's limited room for maneuver. We would like your advice as to what would be a reasonable U.S. negotiating objective in these circumstances.

3. The Problem of Brazil: The principal problem here, as the Congress knows, is that of Brazil's desire to acquire new modern aircraft. This case, too, presents us with a serious dilemma.

We have known of Brazil's desire for new aircraft for sometime. We knew that our ability to delay Brazilian decisions was limited. The matter was considered of sufficient importance by President Costa e Silva that he took it up personally on several occasions with President Johnson and asked that the United States sell, on a commercial basis, F-5 aircraft as we had indicated we might as early as 1965. Despite great pressure, Costa e Silva has apparently now overruled his Air Force who wished to purchase more expensive and more sophisticated Mirage aircraft. A repudiation of our earlier offer would be a blow for Costa e Silva and seriously effect our relations with Brazil.

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Even if we were to withdraw our offer, we would not prevent acquisition of more advanced aircraft by Brazil. Costa e Silva would be compelled to take up the French offer. (The Brazilian President has apparently deferred a public announcement of his decision to purchase F-5s in order to permit a calming of public opinion.) The Mirages are a Mach 2 aircraft and considerably more expensive and technically complex than the F-5. A decision by Brazil in favor of Mirages would virtually assure that other countries in Latin America-- Argentina and Chile--would follow suit.

There is a reasonable chance that Argentina and Chile will not press for F-5 aircraft at this time if Costa e Silva merely announces his decision to acquire F-5s. In Argentina, President Ongania has sought to postpone the purchase of all but the most urgent items of military re-equipment on grounds that primary emphasis must be given to the stabilization and modernization of the economy. Similarly, Chile has not so far shown any interest in early negotiations and probably does not intend to undertake purchases before 1970 at the earliest. But withdrawal of the United States commitment to license such aircraft for commercial export would certainly trigger efforts by both countries to look for alternative sources.

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F. The Mediterranean Area: The Issue of Defense Requirements

1. General Comments: There are several countries in this area which in the past have relied upon United States military aid: Morocco, Tunisia, Libya, and Jordan. In simplest terms, the issue is whether to continue our supplier relationship or let the Soviet Union into the position of principal supplier.

We would like to discuss two specific and urgent cases which illustrate our policy dilemma.

2. Morocco: Morocco has asked us for F-5 aircraft as part of a \$14 million credit sale. This credit sale program was offered by the President to King Hassan in Washington last year provided it be used only for defensive purposes and not detract from Morocco's economic development efforts. The proposed purchase follows upon an earlier credit sale of 12 F-5 aircraft, the last of which were delivered late last year.

It is difficult to argue that these purchases are unreasonable in terms of legitimate Moroccan requirements of self-defense. Morocco's desire to strengthen its armed forces is a response to Algeria's massive arms build up, for which the Soviet Union has made available more than \$200 million in equipment over the past five years. Algeria's arms inventory now includes some 160 jet fighter and bomber aircraft and several hundred tanks and armored vehicles. Against this, Morocco at present has an air force consisting essentially of one F-5 squadron and some 31 lightly armed trainer aircraft. While Morocco is trying to develop some deterrent capability there is no attempt to match the Algerian build up.

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Withdrawal of the offer would compel Morocco to turn to the Soviets and other Eastern European suppliers. France has suspended both economic and military materiel assistance since the Ben Barka affair in 1965. The Soviets have held open an offer of 40 MIG 21s, guaranteed logistical support, and 20 AN-12 cargo aircraft. Morocco's willingness to turn to the East is substantiated by a recent contract with Czechoslovakia and past agreements with the Soviet Union. It is now purchasing T-54 tanks from Czechoslovakia because of its inability to obtain armor in the West. In 1961 it acquired a squadron of MIG 17s (plus a 30-man Soviet technical assistance team). Soviet aircraft are now in storage, and the last members of the Soviet Union team returned home in 1965.

Thus, in reaching a decision, we must balance our desire to avoid contributing to an arms race in the Maghreb and the consequences of our refusal to supply Moroccan requirements.

The limited amount of equipment we have been asked to provide would not contribute to an arms spiral. But, a major intrusion by the Soviets would be a major setback for our position in the Mediterranean.

3. Jordan: Jordan presents us with an especially difficult problem. King Hussein has been a voice of moderation in the Arab world. The hope for an Arab-Israel settlement rests in considerable measure on his cooperation. But even without a settlement, his regime clearly is preferable to the type of radical ultra-nationalist and possibly unstable regime that would likely emerge upon his departure.

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In years past, Hussein has been heavily dependent upon the United States for his military supplies. Jordan is the only country in the area which has not received any deliveries from us since the June hostilities. But survival of the Hashemite regime, which is dependent upon the support of the arms, requires that Hussein arrange for resupply of the equipment lost in the June hostilities. The Soviets have offered to send a military supply mission to Amman. We have solid evidence that Hussein would accept the Soviet offer if he is unable to meet his requirements in the West. These include supersonic aircraft and medium to heavy tanks.

In favor of arms supply by the United States it can be argued:

a. The preservation of a moderate regime in Jordan, independent of Soviet influence, is essential to the stability of the area.

b. Even if we meet Jordanian requests in full, Israel will maintain a clear military superiority over the combined Arab military forces. Jordan could not hope to fend off, for at most a few days, an Israeli offensive.

c. Jordan's economy is unable to support a defense establishment of the present size. Temporarily Jordan is provided with adequate operating funds by the Arab oil countries which will enable it to make the down payments required for new military equipment. But long range, if and when this financial support ceases, Jordan will require continued economic support from the West. If economic aid were permanently cut off, we risk a radical re-orientation of Hussein's foreign policy.

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G. The Indian Sub-Continent: Defense Budgets and Economic Development

The issue here is one of how to persuade these governments to exercise maximum restraint in their defense budgets, consistent with their legitimate security requirements. The basic problem is the difference in view of what are legitimate defense requirements of the other country. India believes it must be strong enough to hold off concerted attacks by Communist China and Pakistan. Pakistan, on the other hand, discounts a Chinese military threat and evaluates India's military build-up exclusively in terms of the threat to itself.

The United States, of course, is no longer a significant supplier of military equipment to either country. After the hostilities in 1965, we terminated our Military Assistance Advisory Group in Pakistan and our Military Supply Mission in India. India and Pakistan are an issue under the Amendments because of purchases of equipment from third countries and the question of whether defense spending is excessive in terms of these countries' legitimate military requirements.

The facts as we know them are:

Conte-Long Amendment: India is now receiving delivery of Soviet SU-7 fighter bomber, MIG 21 high-level fighter aircraft, and T-55 medium tanks. It also has contracts for three submarines from Italy. Pakistan has purchased 24 Mirage aircraft and a number of submarines from France and Italy. In all cases, the two governments appear to have obtained favorable credit terms so that the purchases do not constitute a serious foreign exchange drain over the short term. Technically, the Conte-Long Amendment does not apply because all contracts pre-date the statute, some going back to 1966.

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Symington Amendment: Here the situation seems considerably more favorable. India's defense spending has leveled off in rupee figures in the last two years but in real terms has declined because of devaluation and inflation. Pakistan sharply increased its defense spending after the 1965 hostilities but since then defense spending has been declining both absolutely and in terms of the total budget. In both countries, defense expenditures account for roughly one fifth of the central government's total budget.

Ever since the 1965 hostilities we have consistently applied moral suasion and diplomatic efforts toward the objective of persuading each government to restrain its arms spending. There are no absolute, clear-cut quantitative tests we can apply to measure the degree to which our efforts have been effective. But the fact of the matter is that in neither country has there been an increase in defense spending levels while in Pakistan there has been a significant decline. We believe our efforts have contributed to and strengthened existing forces in each country operating for restraint in defense spending. We believe we are on the right track and intend to continue our efforts.

H. Conclusion

This then is how we review problem cases in light of the Amendments. Over all, we believe that the approach we have sketched out is a reasonable one and in conformance with the intent of the Congress. But pursuit of the policy objective will clearly be a very difficult road. We need the patience of the Congress and its understanding to the limits of what we can hope to achieve. We would appreciate your reaction to this approach and how to deal with some of these policy dilemmas which we have outlined.

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